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C O N F I D E N T I A L SECTION 01 OF 03 QUITO 001445

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SUBJECT: RESPONDING TO ECUADOR'S GOVERNANCE CRISIS

Classified By: Ambassador Kristie A. Kenney, Reasons 1.4 (b)

1. (C) Summary: Following the April 20 change in government, the US Mission underwent a two-month process to gather data and analyze the deeper causes of instability affecting Ecuador's governance. Mission sections and agencies, led by the Ambassador, met on June 14 to discuss our short and long-term response to Ecuador's democracy crisis. Several fundamental issues, such as a corporatist rent-seeking system and poor education, were identified as areas preventing Ecuador from reaching its full potential. Ecuadorian elites see the economy as a zero-sum game, which leads to a constant scramble for pieces of the same pie. Post recognizes that many Ecuadorians are disillusioned with democracy after 25 years marked by rampant corruption. Looking at the short-term, Post identified some promising opportunities, such as the signing of a free trade agreement and possible customs and justice reforms. Security issues will remain a high priority and we will seek to consolidate our public diplomacy efforts. We will also try to step up efforts to promote educational and judicial reform.

2. (C) Post will continue to work to create the best-case scenario for Ecuador, while also preparing for the worst-case scenario. A best-case scenario would have Ecuador becoming a country to invest in and with a highly educated population. A worst-case scenario could include Ecuador defaulting on its loans, the Ecuadorian Navy forbidding the boarding of ships (allowing drug and human smugglers to act with impunity), and the removal of security forces from the northern border, jeopardizing Ecuador's security situation and having a dire impact on Plan Colombia. End Summary.

Fundamental Issues Prevent Equity

3. (U) Mission staff identified some of the root causes of Ecuador's economic and democratic ills. One is Ecuador's corporatist structure which allows the country's elites to capture the majority of the country's wealth. Various groups compete to grab wealth from the government which controls all the country's resources in a rent-seeking system. Poor education among the general population, and common attitudes, such as leftist tendencies which tend to place all the blame on the US, allow the country's elites to get away with capturing all the country's wealth, stifling efforts to create a stable middle class. Judicial corruption is also used to control the country's resources.

Democracy Has Not Delivered

4. (SBU) After 25 years of democracy, the general population is disillusioned. Democracy is associated with rampant corruption. When looking to find those responsible for democracy's failure, many see the US, the IMF, and globalization as the enemies, instead of identifying elements in Ecuadorian society that prevent true democracy and economic justice from flourishing. Ecuador and its leaders are in desperate need of a long-term vision. A coherent, long-range government policy for growth is needed; instead each new administration creates its own policies, which typically are ill-considered and ineffective. Poor education means there is no critical mass to lead and effect real change. With the majority of its population in poverty, most are focused on day-to-day survival, rather than an improved future.

FTA Offers Immediate Opportunity

5. (SBU) The most promising immediate opportunity for Ecuador is the US-Andean free trade agreement (FTA) which could help Ecuador create a more transparent, competitive economic system. Opening the Ecuadorian economy, creating real competition, is the only sure way to break up the elites' stranglehold on power. However, we recognize this government still does not seem fully committed to an FTA. In fact, much of Ecuador's political class is confused and deeply skeptical of it. Although it will be difficult to pass an FTA during this administration, the lasting effects of an FTA are perhaps Ecuador's best hope to improve the

lives of all Ecuadorians. The FTA process also offers opportunities for regulatory, customs, and judicial reforms.

Security Issues Remain High Priority

16. (C) MILGP and DAO highlighted security concerns related to the change in administrations. Recent politically motivated purges of the officer corps could affect the stability of military institutions. This is coupled with a high summer turnover which will result in a more inexperienced military, which, in a crisis, could be less adaptable and less dependable. Another serious risk is that, in the current political climate and with recent negative media reports, the Ecuadorian Navy could decide to deny US maritime officials permission to board suspect ships. This would allow drug and human smugglers to act with impunity and have an immediate negative impact on overall USG counter-narcotics efforts in the region.

17. (SBU) MILGP and DAO will work to improve the self-esteem of security forces, battered by the events of April 20. We will also do as much as possible to facilitate military/police cooperation. MILGP and DAO will coordinate with PAS to formulate new talking points on regional security, making the issue clearly about Ecuador and maintaining peace here, instead of focusing on Colombia.

Other Political and Economic Issues

18. (U) In the short term, social groups such as NGOs and citizen assemblies are proposing political reforms; however, there is a lack of consensus among them on what reform priorities should be. We need to help Ecuador analyze these proposals in order to make the most informed decisions. The results of these reforms (suggested reforms include bicameralism, representation by district in Congress, and other Constitutional reforms), however, may not get to the heart of Ecuador's fundamental problems. Another immediate concern is a possible loan default scenario. We will work to prevent this scenario as it could lead to a banking crisis similar to that of 1999. A repeat of this crisis, or anything approaching it, would have a drastic effect on the economy and political stability.

Consolidating Outreach

19. (U) Post will continue to craft a public diplomacy strategy for each major Embassy activity, and will better tailor our message to the current environment. We will continue to broaden our public diplomacy outreach, possibly using Peace Corps volunteers, MILGP's medical readiness training exercise (MEDRETE) staff, and the Foreign Agricultural Service's project staff to reach more Ecuadorians with a non-political message. We will consider distributing literature and exhibiting videos of USG aid projects in the consular waiting rooms, taking advantage of these captive audiences.

Education Reform Needed

10. (U) Mission members agreed that a well-educated populace was needed to achieve true functional democracy and for Ecuador to make informed economic decisions. AID will prepare an education project proposal, and we will begin promoting real reform in this area. AID has already flagged education as a priority for FY2007 to Washington.

Justice Needs Attention

11. (U) We will also seek ways in which we can support meaningful reforms in the justice sector. The Embassy will form a justice working group whose efforts will seek medium and long-term structural improvements. Various vested interests among political parties and other groups may work to prevent major reforms. This, combined with instability and GOE weakness, makes reforms difficult. However, reform in the justice sector could significantly address some of the fundamental problems in the Ecuadorian system (e.g., corruption).

Other Next Steps:

12. (SBU)
--We will consider limiting programmatic foci in order to

have a more concentrated impact in fewer areas.
--We will organize quarterly democracy meetings, looking at what we are doing to solve long term democracy and governance problems.
-- We will seek to increase networking and sharing of information among sections, having brown bag lunches on topics such as the FTA.
--MILGP will focus PD efforts on spreading info on its medical readiness exercises and humanitarian assistance programs. We will also get the Ecuadorian military involved in these events to share in the good publicity.
--We will look to bring international speakers on globalization and competition.
--We will continue to support the strengthening of NGO political watchdog groups.
--We will prepare to support the next national elections (whenever they might occur), including educating media and preparing for OAS observers.
--We will continue Congressional outreach to promote dialogue.
--We will look at the possibility of a mini "millennium challenge account" in Ecuador with two cities competing for US funds and setting a positive example for other cities.

Wrapping Up

13. (C) Our Mission will work to find a greater balance between dealing with immediate political concerns while also attempting to right some of the fundamental problems preventing Ecuador from developing fully economically and democratically. We must continue to work with the current administration in order to help move them towards a best-case scenario, and prevent any bad decisions that may lead to a worst-case scenario. We will continue monitoring disruptive political trends such as the emergence of an Ecuadorian Bolivarian movement. While there is a consensus within the Mission on what needs to be done for a healthy economy, there is no clear fix for Ecuador's democracy problems. Any solution to the democratic crisis must be customized to Ecuador's situation. We are taking a fresh approach to address fundamental problems in Ecuador. Our work has just begun, but will need Washington's support to see it through completion.

Kenney